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SUBJECT: MADRID ECONOMIC WEEKLY, SEPT. 29-OCT. 3

REF: A. MADRID 793

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[Authorities Reassure Public That Bank Deposits Safely Insured](#)

1.(U) Media concern over the turmoil in U.S. and European commercial banks prompted authorities to emphasize the safety of deposits in Spanish banks. Vice President and Economy/Finance Minister Solbes said on different occasions during the week that, unlike in many European countries, Spain's deposit guarantee fund (FGD) was fully solvent and depositors could rest easy. The fund guarantees 20,000 euros per account, lower than in many European countries. Solbes noted discussions on a common EU position on guarantees but said Spain would reject any steps that would change the way it funded the FGD. Solbes also called for rapid approval of the U.S. financial market rescue package, saying that not having a plan in place would be worse than having this plan in place. Solbes said that 2008 growth would be around 1.6% and 2009 growth around 1%, adding that the economy would bottom out in late 2009 and return to growth rates near its 3% potential in 2010 or 2011. He said inflation could fall to as low as 3.5% by the end of 2008 if oil prices remained at their current level. (El Pais, 9/30; Solbes speech, 10/2; ABC, 10/3)

[Zapatero-Rajoy Meeting on Economy Likely](#)

2.(U) Possibly seeking to break a pattern of name-calling in which opposition PP leader Rajoy has repeatedly accused President Zapatero of denying the severity of the economic situation, Zapatero has called Rajoy unpatriotic, and each has criticized the other for lacking effective ideas, Zapatero invited Rajoy to meet with him to discuss economic measures. Rajoy replied that he did not want a photo op, but a substantive meeting after a preparatory meeting between the GOS and PP economic teams, led by Solbes and PP economic

spokesman Cristobal Montoro. The preparatory meeting is likely to take place in the next week or so. (El Confidencial, 9/30; Solbes speech, 10/2; ABC, 10/3)

Santander Buys Failed UK Bank's Deposit Business

3.(U) Spain's largest bank, Banco Santander, continues to look for buying opportunities abroad. It outbid Barclays and HSBC for the branches and savings deposits of the nationalized British bank Bradford and Bingley, paying 772 million euros in cash for deposits worth 27 billion euros belonging to 2.5 million clients, along with 197 branches and 141 other distribution points. Santander had finished second in bidding for a German bank a few weeks ago and according to press reports also had been interested in Washington Mutual and Wachovia in recent weeks. This interest in new loans comes despite the continuing problems of Santander's main U.S. investment. Pennsylvania-based Sovereign Bancorp, in which Santander owns a 25% stake, saw its stock fall by 72% on September 29 before rebounding somewhat later in the week. (El Pais, 10/29)

Most Statistics Show Continuing Slump, but Inflation Drops

4.(U)

- Mortgage delinquency rose from 1.0% in the year's first quarter to a still-low 1.3% in the second quarter;
- New housing construction permits in the January-July period were 58% below their January-July 2007 level;
- Unemployment rose from 11% in July to 11.3% in August, the highest rate in any EU country, according to Eurostat;
- Car sales in September were 32% below their September 2007 level and are down 22% for the year's first 9 months;
- Year-on-year inflation in September fell 0.3% to 4.6%, according to a preliminary estimate.

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Abertis Pulls Out of \$12.8 Billion Pennsylvania Turnpike Deal

5.(U) Construction company Abertis allowed its \$12.8 billion offer to operate the Pennsylvania turnpike for 75 years expire September 30 given indications that the Pennsylvania legislature would not let the deal to go forward. The project (ref B) would have been the largest public-private-partnership (PPP) toll road deal in the United States. The Abertis-led consortium, which also included Citi Infrastructure Partners and Criteria, had won the bid to lease and operate the Turnpike as a toll road for 75 years, contingent upon certain state legislative approvals. When the deal did not receive the necessary legislative actions by the September 30 deadline, Abertis decided not to further extend its offer. Abertis representatives noted that the company was open to revisiting the project in the future should conditions for it become more favorable. (El Pais, 10/02-03; Reuters, 10/01)

Spanair Reaches Agreement to Lay Off 1,000

6.(U) Sources at the airline indicate that Spanair has reached a tentative agreement with the majority of its workers to proceed with layoffs of about 1,000 employees (almost a third of its workforce) as well as obligatory relocation of 700 employees to other Spanair hubs. Spanair had announced its intention to engage in layoffs in July (ref A), but labor laws required the company to first reach a compensation package agreement -- in this case upwards of 20 million euros. Spanair has been hit hard by high fuel prices and a slowing economy, as well as the August 20 Madrid crash that killed 154. After Iberia, Spanair provided the second largest level of service to the Spanish domestic market. (El Pais, Oct. 3)

2007 Foreign Aid Reached Record 0.37% of GDP

7.(U) The GOS spent over \$5 billion (3.8 billion euros) on

foreign assistance in 2007, a record 0.37% of GDP but less than the MFA's plan of 0.42%. As a percent of GDP, Spain's assistance has reached the same level of Germany and Switzerland, and is much higher than Italy and Portugal, which spend less than 0.2% of GDP. The primary regions that received Spain's aid in 2007 were Latin America (40% of total) and Sub-Saharan Africa (28%). In 2007, President Zapatero announced his intention to increase Spain's assistance to 0.7% of GDP by 2012, three years earlier than required under its commitment of UN Millennium Development Goals. The GOS plans for aid to reach 0.5% of GDP this year and in 2009. (GOS announcement, 10/2; ABC 10/3)

CHACON